

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6740

BILL NUMBER: HB 1423

NOTE PREPARED: Jan 2, 2003

BILL AMENDED:

SUBJECT: Prison Investment Tax Credit.

FIRST AUTHOR: Rep. Murphy

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows the retroactive application of the Prison Investment Credit to a pass through entity for taxable years beginning after December 31, 1997, and ending before January 1, 2002.

Effective Date: Upon passage.

Explanation of State Expenditures: The Department of State Revenue will have additional administrative expenses to process these refunds.

Explanation of State Revenues: *Summary:* This bill retroactively amends the Prison Investment Credit to allow pass through entities to be entitled to this credit for tax years 1998 to 2001. The current tax credit is allowed for investment in qualified property or wages paid to inmates as approved by an agreement with the Department of Correction (DOC). The credit is limited to the lesser of (1) the taxpayer's tax liability; (2) the sum of 50% of the investment in qualified property plus 25% of wages paid to inmates; or (3) \$100,000. P.L. 129-2001 amended this credit to include pass through entities beginning in the 2002 tax year.

Impact: Over the past few years, the DOC has agreements with 2 regular corporations and 7 subchapter S corporations for work to be performed by DOC inmates. The total amount of wages paid by these private sector partnerships are outlined in the table below. The breakdown of wages paid by type of business entity in 1998 and 1999 was not available. If all of subchapter S corporations applied for the refund and all the wages paid qualified for a tax credit in 2000 and 2001, the maximum tax credit would be \$805,000. The extent to which not all taxpayers would apply for this refund or the individual credits would be limited to the taxpayer's tax liability for the applicable tax years or the maximum annual credit of \$100,000 would apply, the actual revenue loss would be less than \$805,000. Taxpayers must apply for the refund before

January 1, 2005. Refunds are paid from the General Fund.

Year	Total Offender Wages Paid	S Corp's Portion of Wages Paid	Max Potential Tax Credit
1998	\$91,493	NA	NA
1999	\$340,510	NA	NA
2000	\$1,309,538	\$648,000	\$171,000
2001	\$3,189,144	\$2,536,000	\$634,000

Secondary Impact: Wages paid to inmates working under these agreements have generated federal, state, and local income taxes, Victim Compensation Fund payments, and room and board reimbursements as identified in the table below.

Year	Federal, State & Local Income Taxes Paid	Victim Compensation Fund Payments	Room & Board Reimbursements
2000	\$153,380	\$137,869	\$549,286
2001	\$460,868	\$251,661	\$1,000,071

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Correction.

Local Agencies Affected:

Information Sources: Becky Gillam, Department of Correction, Pen Products, 388-8580.

Fiscal Analyst: Diane Powers, 317-232-9853